

RESOLUTION 2020-07

(A resolution establishing financial policies for the City of Hood River, replacing Resolution 2016-19)

WHEREAS the State of Oregon requires all cities to maintain balanced budgets;

WHEREAS the City Council wishes to promote maximum transparency in the budgeting process;

WHEREAS the City Council desires to ensure the City uses the most sustainable, fiscally responsible budgeting processes practicable;

WHEREAS the City's financial health will benefit from an increased planning horizon;

NOW, THEREFORE, BE IT RESOLVED by the Hood River City Council that:

1. The Budget will be Structurally Balanced

Background – A budget is structurally balanced if it does not spend more on ongoing services than it receives in ongoing revenues. A structurally balanced budget is a necessary component of good financial management and financial discipline and will help sustain the consistent delivery of services to residents. An unbalanced budget (spending more than is received) undermines the City's ability to deal with financial problems. It may lead to reduced services in the future and inhibit the City's ability to take advantage of opportunities that will periodically occur.

Policy - The budget for the General Fund will be structurally balanced for the fiscal Year or will include an explanation and describe the expected approach and time frame for achieving structural balance within the context of official revenue and expenditure projections. It is not a violation of this policy to have a planned use of funds available to fund one-time items, including capital, equipment, land or transitional costs for operations (starting up or termination of a service element). It is also not a violation of this policy to use funds previously set aside to mitigate temporarily higher costs or lower revenues.

2. One-Time Resources will be Used Only for One-Time Purposes

Background - One-time resources are revenues that only occur once, for a very limited time, or are too unpredictable or unstable to fund operations. One-time revenues may include the variable portion of some revenue sources that have highly variable components. One-time revenues are not suited to fund ongoing operations because they are not available in the future or cannot be relied on from year-to-year to pay the ongoing costs of operations.

Policy - One-time resources will not be used to fund ongoing operations. They will be used for one-time uses, including capital and other one-time expenditures, transitional funding of operations (for a limited time-period with a planned ending date), increasing reserves, or paying down unfunded liabilities.

3. The Budget Process Is Based on an Annual Cycle with Minimal Mid-Cycle Adjustments

Background - Budgeting on an annual basis provides time to review all revenue sources, develop solutions to previously identified problems, and to discuss and decide on policies and priorities. An annual budget process also provides time for management to plan and implement changes incorporated into the budget more efficiently and effectively. Shortening or interrupting the process with significant mid-cycle changes can lead to poor decision making due to incomplete information and to inefficient and ineffective operations or expenditures.

Policy -

- a) The annual budget process will be the general method used by the City to develop its annual service priorities and the level and type of resources to fund those services.
- b) Changes to the budget and to service levels during the fiscal year will be minimized. "Routine" changes during the fiscal year will generally be limited to technical adjustments, time sensitive opportunities or issues, or new grants or awards that are intended to be spent during the year.
- c) The creation of non-routine mid-year new programs or projects, higher service levels, or other expenditures during mid-budget cycle should be evaluated for programmatic feasibility and impact and for fiscal impact, preferably by the responsible operational department and by the Finance Department. If an adopted mid-year program or project is in conflict in terms of resource use or other aspects, the midyear program or project will have a lower priority (compared to preexisting budgeted programs and projects) unless otherwise specified by City Council.
- d) Unexpected revenue shortfalls or other significant issues that may create a budget shortfall during the fiscal year are to be reported to the City Council with recommendations by the City Manager as to whether a mid-year budget adjustment should be made.

4. General Fund Emergency and Operating Reserves

Background - Maintaining adequate emergency and operating reserves is a basic component of a financially strong City. Adequate reserves help sustain City operations when adverse or unexpected circumstances impact the City. Reserve levels should be set in the context of the City's specific revenue environment and operating conditions.

Policy –

- a) The City will maintain a General Fund ending balance equal to three months of operating expenditures.
- b) An Operating Reserve equaling one year of unrestricted Transient Room Tax collection will be accumulated by the end of FY2024-25.
- c) Essential services will receive priority for reserve funding.
- d) Spending emergency or operating reserves is allowed under the following circumstances:
 - Severe economic downturn
 - One-time loss or impairment of a significant revenue source
 - Natural disaster or state of emergency
 - When paying down liabilities is a financial benefit to the City

- e) If emergency or operating reserves are drawn down below the minimums, a plan will be developed and implemented to replenish them, generally, from future surpluses. Replenishing reserves will be a priority use of one-time resources.

5. Vehicles, Apparatus, and Other Large Equipment Purchases

Background – Municipal operations require the daily use of expensive equipment and vehicles that must be replaced periodically. Without long-term financial planning, cities can be left with essential equipment in need of replacement without a defined funding source.

Policy – The City will maintain a fleet replacement program that will charge a reasonably calculated fee to operating funds for the planned replacement of assigned vehicles, apparatus, and large equipment at the end of their useful life. Interest earnings on the accumulated balance within the fleet replacement program will be used to proportionately offset annual operating fund charges.

6. Facilities, Utility Infrastructure, and other Long-lived Asset Investments

Background – Buildings and capital projects typically have lifespans of over thirty-years and are built to accommodate future growth. Borrowing promotes intergenerational equity by spreading the cost of new or upgraded City infrastructure over time so that future generations benefitting from such infrastructure contribute to its costs.

Policy – Debt is a preferred method to fund facilities, utility infrastructure, and other long-lived City assets with a useful life of thirty or more years. The City will strive to maintain a high bond rating to minimize interest expenses.

7. Employee Compensation

Background – The employment of people is the City's largest ongoing expense. This is because the City's business is providing public services instead of a product. The City must closely control drivers' personnel expenditures while also maintaining a competitive compensation structure to attract and retain high-quality employees.

Policy –

- a) The City Council shall approve all collective bargaining agreements.
- b) Cost of living increases for general service pay scales will be tied to an appropriate inflationary index.
- c) Pay scales for all employees will be published as an appendix to the annual budget document.

8. Operating Funds will be Charged to Offset Accrued Liabilities

Background – Business operations routinely involve the creation of future liabilities. The most common example is retirement benefits attached to earned service hours. The true cost of these obligations can be easily overlooked because the expenses will not occur for many years in the future. This can lead to unsustainable operating levels followed by rapidly increasing future costs.

Policy – The City will charge operations for the present value of long-term liabilities created by current activities. At minimum this will include:

- a) Administer an operational charge to operational funds that is reasonably calculated to equal the cost of accrued compensated absences. Revenue from these charges will be set aside in an Internal Service Fund to pay for future compensated absence payouts.
- b) When the City's Public Employee Retirement System (PERS) account maintains an unfunded actuarial liability, the City will deposit up to the amount necessary to bring the City to 100% funded status into a PERS Side Account. To the extent feasible, this deposit will be proportionally distributed across operating funds based on their payroll liability.

9. Annual Audit Review

Background – Budgets are critical planning tools but are necessarily forward looking, based on forecasting assumptions. Periodically uniting budgeted figures to actual spending amounts is necessary to provide the most accurate and current view of the City's financial condition.

Policy - Each year, the City Council shall review the actual beginning fund balances shown in the external audit. If the General Fund amount is in excess of the budgeted amount, the City Council shall determine the disposition of the excess.

10. Budgeted Contingency

Background – Budgeted contingency is a routine line-item needed to accommodate natural variation in expenditures from budgeted figures. Contingency appropriations are not a substitute for estimating known expenditures or to facilitate loose budgeting practices. Contingency should be estimated to reasonably equal expenditure variation and not as a "savings account" in which to sequester excess revenues.

Policy – Budgeted Contingency must be reasonable, based on experience, and consistent with the purpose of the particular fund.

11. Limited Use of Special Revenue Funds

Background – Fund accounting is required in the governmental context in order to separate funds by legal use. For instance, System Development Charges cannot be used for general system maintenance. Further segregation of dollars beyond legally restricted uses can obscure the City's financial condition by overly complicating its budget.

Policy – Special Revenue Funds shall be created only as needed to segregate funds due to statutory requirements, ordinances or contractual commitments.

12. Use of Multi-Year Financial Projections

Background – The City's financial situation and projected future status are important factors in the financial and economic decisions the City Council may make. To support the City's budgetary planning and financial decision-making process, the City needs to analyze its financial situation and the key factors impacting its economic and financial status.

Policy - At a minimum, the proposed annual budget will include a three-year General Fund projection (the fiscal year plus two additional years). Major assumptions should be identified. It is desirable that the budget should include similar projections of key funds and potentially all funds.

13. Required Elements of the Budget Message

Background – The annual budget message is the primary explanation of the City's financial plans for the coming fiscal year. It gives the budget committee and the public information that will help them understand the proposed budget.

Policy – The Budget Message will describe the changes from the prior year budget in sufficient detail to provide transparency and assist the public and Budget Committee to understand the proposed budget.

14. User Fees and Charges will be Set at the Cost of the Service

Background - Fee supported services typically benefit an individual, business, or group. Because these services provide a discreetly assignable benefit, communities often seek to recover costs through user charges. This allows general revenues to be directed to funding services performed for the community as a whole. Incrementally increasing fees in alignment with an appropriate inflation index helps charges remain stable on a real dollar basis over time and lessens the need for large periodic fee revisions.

Policy - The City shall annually review its fees or charges for services. Annual automatic increases should be tied to an appropriate inflationary index. Fees will be set to fully recover costs, except where there is a greater public benefit through use of a lower fee, such as where full recovery may adversely impact overall revenue or may discourage participation in programs where the participation benefits the overall community

15. Capital Improvement Plans

Background – Capital investments in public infrastructure is the City's largest asset. Capital improvement plans should be reviewed annually, and the state of infrastructure continuously monitored.

Policy - The City will maintain a multi-year plan for capital improvements, update it annually and make all capital improvements in accordance with the plan. The City will maintain its physical assets at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs. The budget will provide for adequate maintenance and orderly replacement of capital assets from current revenues where

possible. A five-year capital improvement plan will be included in the annual budget document.

16. Financial Policies Reviewed Annually

Background – Regular review of financial policies ensures that they are still meeting the needs of the organization and expectations of the elected Officials

Police – The City of Hood River's Financial Policies will be reviewed during a Regular City Council prior to the start of the budget process on an annual basis

Adopted this 13 day of April, 2020, and effective for the FY 2021-22 budgeting process.



Kate McBride, Mayor

ATTEST:



Jennifer Gray, City Recorder